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**Cambridge International Advanced Subsidiary and Advanced Level**

# MARK SCHEME for the May/June 2015 series

# 9707 BUSINESS STUDIES

**9707/11** Paper 1 (Short Answer/Essay), maximum raw mark 40

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**1 (a)** Leadership has been defined as giving direction, guidance, and/or vision/inspiration to an organisation.
Answers that only focus on motivating employees in an organisation to achieve a common objective or goal should be awarded only 1 mark.

NB: There needs to be a definition which is different to the accepted role of a manager (a more passive role of allocating and controlling resources in an organisation).

- Full definition – sound understanding **[2]**
- Partial definition – limited understanding **[1]**

**(b)** Styles of leadership could include:

1. autocratic or authoritarian
2. democratic
3. laissez faire

The explanation of the chosen style should identify the characteristics **and** business relevance for all 3 marks.

Sound explanation of a leadership style in a business context. **[3]**

Sound explanation of a leadership style. **[2]**

Partial explanation of a leadership style. **[1]**

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**2 (a)** Relocation can be defined as a change in the physical location of a business – the movement of a business from one area/region to another.

- A full definition – sound understanding. **[2]**
- A partial definition – limited understanding. **[1]**

**(b)** Factors that could cause a business to relocate could include:

– the rising costs of an existing facility.
– tax breaks/Government incentives in a different location.
– growth which requires expansion in a new outlet or location.
– changes/closeness to the target market.
– workforce issues.
– quality of life issues.
– political issues.
– to avoid trade barriers.
– better transport links.

- Sound explanation of **TWO** factors. **[3]**
- Sound explanation of **ONE** factor or partial explanation of **TWO** factors. **[2]**
- Partial explanation of **ONE** factor or simple statement of **TWO** factors. **[1]**

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**3** A manufacturing company could finance its expansion requirements as follows:

– depends on the assumptions made about the existing financial position of the business, e.g. retained profits or the potential for sale of assets.
– also depends on assumptions made about the extent and amount of capital required – a manufacturing business might need extensive capital machinery additions.

– Internal sources may be limited and may put pressure on current expenditure management.
– may be limited and may put pressure on current expenditure management.
– External sources such as:
  – if a plc – equity finance.
  – if not, shareholder investment.
  – loans – banks.
  – loans/grants – Government.
  – hire purchase/leasing.

Sound explanation of sources of finance for expansion expenditure with an explicit reference to a manufacturing business. **[4–5]**

General explanation of source(s) of finance for expansion expenditure. **[2–3]**

Limited understanding to sources of business finance. **[1]**

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**4 (a)** A franchise can be defined as a business that has the right to use the name, logo and trading systems of an existing, successful business – (the use of a successful business model under licence.)

- A full definition – a sound understanding. **[2]**

- A partial definition – limited understanding. **[1]**

**(b)** Benefits of operating a franchised business could include:

– reduced risk of business failure.
– dealing with an established brand/product.
– advice/training available from franchisor.
– marketing and advertising initiated and funded by franchisor.
– quality assured supplies guaranteed.
– market segment/area protected by the franchisor.
– easier to obtain loan finance.

Sound explanation of **TWO** benefits. **[3]**

Sound explanation of **ONE** benefit or partial explanation of **TWO** benefits. **[2]**

Partial explanation of **ONE** benefit or simple statement of **TWO** benefits. **[1]**

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**5 (a)** Answers could well define 'cash flow' and 'profit'.

- Cash flow is the movement of cash in and out of a business over time.
- Profit is the difference between sales revenue and costs.
- Cash flow is a significant short-term financial factor and a major cause of business failure in small businesses – it needs to be carefully managed.
- A business needs to maintain liquidity.
- A business can become insolvent even though it is profitable because of timing problems between cash inflows and cash outflows.
- Cash is a vital short-term need – profit can be a longer-term objective.
- A small business may over-trade – expand too rapidly and hit short-term cash/liquidity problems.

Analysis of cash flow and profit issues concerning a new business. **[7–8]**

Good explanation of cash flow and profit issues concerning a new business. **[5–6]**

Limited explanation of cash flow and profit. **[3–4]**

Little understanding of cash flow and/or profit. **[1–2]**

**(b)** The discussion might initially refer to the need to improve a cash flow situation for a new business – there may well be negative cash flows from time to time.

The advantages (in the short- term) of using and increasing an overdraft in order to meet cash flow problems could be stated as:

- it can usually be arranged quickly.
- to allow customers more time to pay.
- it is a very flexible way of getting loan finance.
- interest is only paid when overdrawn.
- no need for collateral.

The disadvantages could be stated as:

- can be expensive i.e. often higher rates of interest than loans.
- may mean that a business is not exploiting less expensive or 'free' short-term sources, such as negotiating more trade credit with suppliers.
- may mean business is not clearing up bad debt i.e. disincentive to chase up money owing.
- only a short-term solution – not long-term.
- can be recalled at any time.

Evaluative comment on the advantages and disadvantages of a small business using an overdraft facility to manage cash flow. **[9–12]**

Analysis of the advantages and disadvantages of a new business using an overdraft facility to manage cash flow. **[7–8]**

Some discussion of the advantages and/or disadvantages of using an overdraft facility. **[3–6]**

Limited understanding of cash flow and/or overdraft. **[1–2]**

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**6** Effective HRM is concerned with the efficient and effective use of people – how a business views its employees as resources to achieve its objectives.

There are many general factors that would evidence effective HRM in any business. Selected factors could include:

– high levels of productivity.
– lower unit costs than the average in an industry.
– mission and purpose of the business understood and achieved.
– low labour turnover and sickness levels.
– high quality staff recruited.
– there may be training and development policies.
– effective workforce planning.
– motivation and morale is high.
– few disputes and disruptions.
– customer satisfaction

Some/all of these may apply to a retail business – specific/contextual factors could include good customer service from a highly motivated workforce - and a friendly helpful culture, that give particular retail stores special competitive advantage (USP)

Evaluative discussion of relevant factors in a retail business that indicate effective HRM. **[17–20]**

Analysis of relevant factors in a retail business that indicate effective HRM. **[13–16]**

Good understanding of relevant factors in a retail business that indicate effective HRM. **[11–12]**

Some understanding of relevant factor(s) that indicate effective HRM. **[5–10]**

Limited understanding of HRM. **[1–4]**

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**7 (a)** Answers may well explain the differences between the two approaches to marketing by discussing the distinctive features of each approach.

**Niche Marketing**:

– the targeting of a small segment of a large market where customers are seen to have special needs and wants.
– attractive to small businesses where there may be less competition and allows a clear focus on specific customers.
– specialist skills/knowledge/market expertise is developed
– may be able to charge a premium price and earn higher profit margins
– develop loyal customers
– economies of scale not achieved and risk of overdependence on limited product portfolio-vulnerable to market changes and increased competition.

**Mass Marketing**:

– selling into the largest part of a market where there are many similar products and services and where the majority of customer needs are similar and general
– associated with higher production and capacity levels
– economies of scale are achievable
– focus on low costs of production to achieve success/competitiveness
– likely heavy brand promotion/high volume sales/low profit margins/lots of competition/little differentiation between products/services.

Analysis of differences between the two types of marketing. **[7–8]**

Good explanation of the differences between the two types. **[5–6]**

Limited explanation of the two types of marketing. **[3–4]**

Little understanding of marketing. **[1–2]**

**(b)** Candidates may well recognise that this assertion is a very limited view of marketing as a business activity. Strong answers will seek to present a more all-embracing view and definition of marketing.

Marketing has been defined as 'the management process that identifies, anticipates, and supplies customer requirements efficiently and profitably.'

A business-wide function that communicates the value of a product or service to customers. Such definitions involve a number of related activities:

– market research
– product design
– pricing
– advertising
– distribution
– customer service

Answers may well refer to the marketing mix – 4 P's and/or 4 C's.

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It can be argued that marketing is much more than advertising and selling (but includes these activities). The link between a business and its customers – getting the right product, at the right price, to the right place, at the right time.

Some evaluative comment on the role and purpose of marketing in the context of the provocative view expressed in the question. **[9–12]**

Analysis of the role and purpose of marketing in the context of the provocative view expressed in the question. **[7–8]**

Some discussion of the role and purpose of marketing. **[3–6]**

Limited understanding of marketing. **[1–2]**

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